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ABSTRACT

Problems exist today in every type of insurance normally required by school systems. A total management program to analyze a school's insurance program should be implemented to maintain protection in all risk areas at rates the district can afford. The author discusses four alternatives for dealing with risk: (1) avoid it, (2) assume it, (3) transfer it, or (4) insure it. (Author/MLF)

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WHAT CAN WE DO TO IMPROVE THE SCHOOL RISK PICTURE?

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This is a fairly broad subject and rather challenging. It implies that problems exist today in every type of insurance normally required by school systems. This is a much discussed fact and comes as no startling revelation to any official who has any responsibility in this area. A lot of very capable authorities, including representatives from the industry and school systems, have devoted a considerable amount of time to current risk problems. A number of excellent papers have appeared during the last 18 months. There are several specific practices that are sound today, and most will improve the risk picture if employed. These have already been rather thoroughly discussed. But we all know of examples where school systems have followed all the rules, so to speak, and still find themselves in a great deal of trouble through really no fault of their own.

I would guess that most of you here today have some concerns in this matter, and yet I suspect most of your current practices would bear fairly close scrutiny. Being aware of this, I'm not presumptuous enough to attempt to give you a 15 minute sure cure for all of your insurance headaches. What I will try to do is to suggest an approach that can be applied to all risk requirements. I believe this approach will give a district stability when problems arise. I hope that I can make a good enough case for establishing an overall risk management program to cause you to seriously consider this if you are not satisfied with what you have now.

A total management program is not something that is possible only in large systems that have sufficient volume to justify a full-time risk manager. Regardless of district size, it consists of nothing more than taking an analytic look at all parts of your program, identifying those that are going sour and then bringing to bear all of the resources that you can muster to improve the picture. If you have primary responsibility for all of your business functions then you can still implement a simple risk management program single handedly. There are external resources available to help you with this at little or no expense, and there are resources within your system that can be helpful.

We have just left a period of time when frequently our chief problem was to find an equitable way of placing coverage. The competition took care of the rates. Now, for me at least, the task is to place insurance, "period," at rates my district can afford, and to maintain protection in all areas of risk. If there is a single good answer to the situation today, I think it will come as a result of our approach. There are four ways that we can deal with risk: (1) avoid; (2) assume; (3) transfer; or (4) insure.

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AVOID OR ELIMINATE

Perhaps the word "avoid" is too demanding and should be changed to "reduce." Sometimes I think in an effort to stretch our dollars we work against ourselves. For example, building codes are becoming more demanding. We all recognize that when in doubt, engineers may, on occasion, over design and fire prevention officials may over specify. It's been estimated in some states that recent code changes have increased building costs by \$5 to \$6 per square foot. I have mixed feelings on this. We have to be cost conscious in looking at what it costs to build but we have to be careful not to become over zealous in keeping our capital costs to a minimum and then paying more annually in insurance premiums throughout the life of the building. If we have some old buildings where the bureau rates are running particularly high, perhaps 75 cents or better, then we ought not be too critical of building codes that will guarantee a 10 cent rate on a new plant.

Risk can be avoided or reduced, of course, by good housekeeping and good maintenance, and many other well publicized techniques. But we first have to find out where our high rate costs are and what is responsible. Regardless of the type of bureau that makes your rates, probably you will find that representatives are available for consultation and for detailed analysis if needed, generally without cost.

I have a few copies of the name and address of the rating bureau in each state. I'm sorry I don't have the same information for the provinces. If you would like a copy you are welcome to it.

You may already be aware of all the factors that affect your rates, in which case it simply becomes a matter of eliminating all risks you can afford to avoid. But if you are not clear on this, then you should try to get a copy of the rating cards or sheets on each of your risks, study these, confer with your maintenance and operations personnel, and improve everything that you can change. And when you improve or eliminate, inform your rating bureau in writing and be sure you receive credit.

There are some freak rating peculiarities that can occur on occasion. For example, a bare wooden floor does not carry as high a rate as the same floor carpeted, if it happens to be carpeted with a covering that doesn't have underwriter's certification. So if your system is carpeting you might check with your purchasing department to be sure that they require certification in their specifications.

Non-fired pressure vessels such as water heaters and storage tanks may or may not be required to carry operating certificates in your area. But if you include these in your boiler insurance schedule you will bring in the engineering service that eliminates most of the risk here. This usually costs less than inspections for operating certificates.

There are a lot of security detection devices available today. Most of them do not carry certification and therefore technically have no bearing on the rate. But as a practical measure, their presence improves the overall attractiveness of your district's risk picture and indicates you are aware of your areas of high risk and are doing something about it.

Another suggestion that would be appropriate to any of the four categories is to simply keep good records including all of your losses. There isn't much doubt but that the insurance industry is running scared. They are used to dealing with physical factors. All of their rating tables are based on factors that have existed for a long time. They are not used to dealing with social problems and the resulting risks that they created. Such things as student attitudes may even be equal to poor maintenance in an insurance company's decision to suddenly go off a large risk where the experience has been favorable. Therefore, you should have available accurate information about not only your experience, maintenance practices, security, etc., but also the methods and measures that your system has to deal with student unrest, particularly in your secondary schools. This is a new dimension in selling your system but failure to recognize it as such has been the cause of some major cancellations. Therefore, the risk manager must deal with it as a reality. We could say more, but let's move on to category number two: "Assuming the Risk."

ASSUMING THE RISK

The extent that assumption can be utilized is a decision that only your system can make based on experience, financial capability, and the probable maximum loss compared to the annual cost of insuring or transferring. Assumption can be either planned or unplanned. Self insurance is a good example of planned assumption but it isn't something that should be employed without complete study.

If you are having rate problems in an area, a high deductible can generally improve this. It eliminates the nuisance of small claims. It serves as a sort of contract between the system and the carrier that keeps both on their toes, and it is one way to interest companies in package plan coverage when otherwise it might be necessary to divide the schedule in small pieces.

The amount of self insurance assumed must be governed by your system's financial capacity; and it should not be employed unless you have permanent funds to cover the deductibles. These funds must be available on demand. It is not a gambling device and there is always the danger of assuming more than you intend. Frequently the extent of assumed risk is not uncovered until a loss occurs. An untrained person should seek professional consultation when contemplating partial self insurance.

The co-insurance clause today may be a form of unplanned assumption. Co-insurance is a foundation stone of property insurance but a system should be sure its appraisals are current when co-insurance exists and deductibles are being considered because a system could already be employing self insurance to an extent not realized as a result of the co-insurance clause.

Actual cash value coverage is also a common form of partial risk assumption. The term can be somewhat misleading, especially in the case of the total loss of an old building. Since ACV adjustment is subject to a percentage deduction for depreciation, there can be a shock in how much less than the amount of loss may actually be paid. ACV coverage is a protection device for carriers. One of the things that a good management program may produce is closely controlled conditions that may persuade underwriters to go to replacement cost insurance instead of actual cash value.

There are several other types of deductibles that I might just mention. They should be understood when accepted.

A flat dollar deductible is simply a single amount per loss.

Percentage of the amount of insurance or amount of loss is what the term suggests.

Franchise deductible, which originated in marine coverages, requires the owner to pay a scheduled deductible but if the loss exceeds this the carrier pays the entire cost.

The disappearing deductible is a fairly recent refinement. It is as it sounds--a gradual reduction of the amount the owner pays as the loss increases.

Then there is the corridor deductible generally used in health plans which has a counterpart in property insurance called "layering." There was a good item in the October, 1970, issue of American School and University by Fred Hill which discussed an approach that falls into this classification.

There is a cumulative deductible in property coverage similar to the aggregate stop loss deductible in workmen's compensation coverage.

Before I leave funded plans, I think that I should warn again against their basic inherent weakness, and this is loss of funds. As funds grow there are various temptations for these to be invested or appropriated. If a loss occurs the funds must be available at once.

TRANSFERRING

Our next possibility is "transferring." There are limits to the extent that this can be of any benefit to a system. One of the most common applications is the hold harmless agreement. This is a contractual agreement whereby the system passes the loss to the other party. There are frequently limitations on the amount of liability that can be transferred, and this should be researched before such agreements are made. Most of these restrictions are enacted by state legislatures, so the probability of such legislation should also be considered before long term contracts are drafted. Courts tend in cases of liability to locate responsibility with the agency that has most to do with the fault and this can be a practical guide that may be of some help in this approach.

Pooling is another form of transferring. The theory behind this is the same as area or regional groups in health insurance plans, only in this case the school districts, without a professional intermediary, join together and assume their losses. The theory is that they would tend to average out losses by grouping. This has been discussed but I know of no working example, and it sounds risky to me. It could be just a pooling of ignorance rather than risks.

Pooling, as a transfer technique, can be employed with management by professional risk bearers through reciprocal arrangement. This is a cooperative type of organization managed by an attorney-in-fact. Premiums are paid into the pool to cover losses. In the event of an overrun the participants are assessed

additional amounts to cover. It probably could be utilized by school systems that handled their insurance through a municipality. A counterpart to this in the insurance industry is the mutual insurance company.

INSURE

Our last way of dealing with risk is to insure. And as you know, this is not as easy as it once was but I think here a good management system can make the job possible and more effective. There is still competition today. Insurance placement in many districts may, however, be a selling job rather than one of buying. And here I can't emphasize too much the importance of keeping in touch with your underwriters. Communication can frequently make the difference between keeping and losing coverage. There are some situations that can develop over which we have no control. When a large company or a large group goes off a risk suddenly by cancellation with no bad experience, it probably means that the company is getting out of the school insurance business. There is nothing you could have done to have prevented this. But this is still the exception rather than the rule. You generally can rely on your local agents, your rating bureaus, and especially the trends of areas similar to your district to give you a good idea about what to expect.

We have to accept the fact that in instances, insurance companies may not really care about our business--may not want it, may not need it. Most companies have more coverage offered today than they care to assume. But most of them will still cover school systems under the right conditions. So our job is to create the right conditions and present these to companies that still depend on school business as part of their volume. Whether you are or have a risk manager, use a broker or advisory committee, be sure that they fully understand and are capable of presenting your picture, and be sure that your procedure for procurement explores the market thoroughly. There are some techniques that may help accomplish this. For instance, if you have a broker who polls the market by telephone, he is more likely to get turned down than if he invests a little of his time and his or your money and goes to the district or home office and presents your case.

Complete records are important. Record all losses. A company is more likely not to have confidence if records are sketchy and incomplete. You won't improve your risk picture by attempting to ignore or cover up small losses. Be sure that your entire organization understands all of the insurance problems you are facing. Remind your principals that the dollars you spend for insurance will not be available for salaries or instructional materials. Be sure that they understand that during an inspection, the general attitude of the students, the discipline, the assignment of staff in and around the building sometimes determine whether or not a company will go on the risk. I can give you examples of where companies have declined a school system based on conversations with one or two employees. I know this sounds incredible of an industry that normally collects mountains of statistics to develop its trends and tables. But let's face it, the insurance industry as yet is not equipped to calculate risk in a disoriented society, and this is what we have today in many places.

CONCLUSION

There are other things that systems can do under a total management program that will help their risk picture. We could have mentioned management, safety programs, physical requirements for employees, and others. The suggestions I have made were intended as illustrations of the various avenues that are open in dealing with your problems. The task has changed from an annual responsibility to a rather constant effort. We probably never will be able to place insurance at the anniversary date, close the file and forget about it until the next date. If a total management program sounds more time consuming than you can afford, you might consider that in doing this you may be able to effect some management practices that produce benefits above and beyond improving your risk picture.

Really, in school business management we are just beginning to find it necessary to employ some of the sophisticated techniques that industry has used for years. The workshop at the end of this conference reflects ASBO's realization that we are going to have to change.

I think at this point before I close I should plug ASBO and its committees as a reference source. The purpose of the research committees is to help the membership. We probably can do more than has been done to make the committees more accessible to the membership, and this is something that I hope to see happen. But now there is a great deal of experience available in every area of business management. I can't recall ever attending a conference without making some contacts that were helpful. I recommend that you make use of your fellow ASBO members as you deal with all of your problems.

Another thought that I've had is that some nationwide research might help with respect to the policy of companies or large groups toward school systems. I think this association represents enough school systems and has enough people with responsibility on its rolls to exert considerable influence on the industry if we addressed ourselves to the task. I know I don't particularly enjoy being penalized because a company may have had bad experience somewhere else in a situation similar to mine, nor do I like massive rate increases based on somewhat distorted experience computations which give no credit for capital gain income, and which claim 40 per cent or higher cost is for company overhead. But these are circumstances that no individual system can do very much about. I think collectively this association could address itself to the equity of some of the requirements that are being imposed upon systems served by its membership.

In closing I would throw this out also as the second part of a two-fold suggestion. First, I think we have to be sure that we are doing everything that we can do to manage all of our risk in as efficient a manner as possible. And, second, I think we need to bring to bear our professional knowledge and the purchasing power that we represent on an industry that in some instances may be taking some advantage of school systems. I would appreciate your reaction to these thoughts.